

Mr. David Culpepper, Senior Reimbursement Analyst
Paragon Health Network, Inc.
One Ravinia Drive, Suite 1500
Atlanta, Georgia 30346

Re: AC# 3-LCS-C5 – GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare
Center

Dear Mr. Culpepper:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period September 30, 1994 through March 31, 1995. That report was used to set the rate covering the contract periods beginning April 1, 1995.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Edgar A. Vaughn, Jr., CPA
State Auditor

EAVjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

GCI VILLAGE GREEN, INC.
d/b/a LAKE CITY-SCRANTON HEALTHCARE CENTER
SCRANTON, SOUTH CAROLINA

CONTRACT PERIODS
BEGINNING APRIL 1, 1995
AC# 3-LCS-C5

REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 27, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center, for the contract periods beginning April 1, 1995 and for the six month cost report period ended March 31, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summaries of Costs and Total Patient Days, and Cost of Capital Reimbursement Analyses sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Village Green, Inc. d/b/a Lake City-Scranton Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 27, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the South Carolina Department of Health and Human Services and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

Edgar A. Vaughn, Jr., CPA
State Auditor

LAKE CITY-SCRANTON HEALTHCARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning April 1, 1995
AC# 3-LCS-C5

	<u>04/01/95</u> <u>09/30/95</u>	<u>10/01/95-</u> <u>03/31/96</u>	<u>04/01/96-</u> <u>09/30/96</u>
Interim reimbursement rate (1)	\$71.66	\$74.26	\$74.26
Adjusted reimbursement rate	<u>66.11</u>	<u>67.17</u>	<u>67.17</u>
Decrease in reimbursement rate	\$ <u>5.55</u>	\$ <u>7.09</u>	\$ <u>7.09</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 1997

LAKE CITY-SCRANTON HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1995 Through September 30, 1995
AC# 3-LCS-C5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.64	\$28.78	\$37.76	\$28.78
Dietary	<u>.01</u>	<u>8.76</u>	<u>8.77</u>	<u>8.76</u>
Subtotal	<u>\$2.65</u>	37.54	46.53	37.54
Laundry/Housekeeping/Maint.	\$ -	6.92	6.74	6.74
Administration & Med. Rec.	<u>-</u>	<u>7.70</u>	<u>7.35</u>	<u>7.35</u>
Subtotal	<u>\$ -</u>	52.16	<u>\$60.62</u>	51.63
<u>Costs Not Subject to Standards:</u>				
Utilities		2.49		2.49
Special Services		-		-
Medical Supplies & Oxy.		.01		.01
Taxes and Insurance		1.02		1.02
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$55.68</u>		55.15
Inflation Factor (4.50%)				2.48
Cost of Capital				6.43
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive - For Gen. Serv. & Dietary				2.65
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				(1.15)
OTC/Nonlegend Drug Reimbursement				.25
Laundry Add-On				<u>.30</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$66.11</u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1995 Through March 31, 1996
AC# 3-LCS-C5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.84	\$28.78	\$40.58	\$28.78
Dietary	<u>.45</u>	<u>8.76</u>	<u>9.21</u>	<u>8.76</u>
Subtotal	\$ <u>3.29</u>	37.54	49.79	37.54
Laundry/Housekeeping/Maint.	\$.29	6.92	7.21	6.92
Administration & Med. Rec.	<u>.67</u>	<u>7.70</u>	<u>8.37</u>	<u>7.70</u>
Subtotal	\$ <u>.96</u>	52.16	\$ <u>65.37</u>	52.16
<u>Costs Not Subject to Standards:</u>				
Utilities		2.49		2.49
Special Services		-		-
Medical Supplies & Oxy.		.01		.01
Taxes and Insurance		1.02		1.02
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$55.68</u>		55.68
Inflation Factor (6.30%)				3.51
Cost of Capital				6.48
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.96
Cost Incentive - For Gen. Serv. & Dietary				3.29
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(2.75)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$67.17</u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1996 Through September 30, 1996
AC# 3-LCS-C5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
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Subtotal	\$ <u>.96</u>	52.16	\$ <u>65.37</u>	52.16
<u>Costs Not Subject to Standards:</u>				
Utilities		2.49		2.49
Special Services		-		-
Medical Supplies & Oxy.		.01		.01
Taxes and Insurance		1.02		1.02
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$55.68</u>		55.68
Inflation Factor (6.30%)				3.51
Cost of Capital				6.48
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.96
Cost Incentive - For Gen. Serv. & Dietary				3.29
Effect of \$1.50 Cap on Cost/Profit Incentives and Cost Sharing				<u>(2.75)</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$67.17</u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1995
For the Contract Period April 1, 1995 Through September 30, 1995
AC# 3-LCS-C5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 475,267	\$ -	\$ 1,800 (2) 2,384 (3) 62 (3) 2,182 (4) 46 (4) 6,014 (5) 194 (5) 2,078 (6) 2,365 (9)	\$ 458,142
Dietary	142,109	-	1,265 (2) 301 (3) 339 (4) 815 (5)	139,389
Laundry	19,201	-	4,329 (2) 22 (3) 3 (4) 122 (5)	14,725
Housekeeping	65,265	-	194 (3) 185 (4) 638 (5)	64,248
Maintenance	32,293	-	62 (3) 52 (4) 185 (5) 785 (9)	31,209
Administration & Medical Records	136,368	24 (4) 2,078 (6)	2,985 (2) 155 (3) 245 (4) 672 (5) 31 (5) 11,815 (9)	122,567
Utilities	39,734	-	111 (9)	39,623

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1995
For the Contract Period April 1, 1995 Through September 30, 1995
AC# 3-LCS-C5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Special Services	-	-	-	-
Medical Supplies & Oxygen	58,730	-	30,563 (2) 28,061 (7)	106
Taxes & Insurance	17,416	-	1,121 (9)	16,295
Legal Fees	-	-	-	-
Cost of Capital	110,163	1,132 (10)	1,551 (1) 7,328 (9)	102,416
Subtotal	1,096,546	3,234	111,060	988,720
Ancillary	12,747	-	-	12,747
Non-Allowable	40,838	1,551 (1) 40,942 (2) 8,671 (5) 28,061 (7) 23,525 (9)	1,132 (10)	142,456
Total Operating Expenses	<u>\$1,150,131</u>	<u>\$105,984</u>	<u>\$112,192</u>	<u>\$1,143,923</u>
TOTAL PATIENT DAYS	<u>15,921</u>	<u>-</u>	<u>-</u>	<u>15,921</u>
 TOTAL BEDS	 <u>88</u>			

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1995
For the Contract Periods October 1, 1995 Through September 30, 1996
AC# 3-LCS-C5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$ 475,267	\$ -	\$ 1,800 (2) 2,384 (3) 62 (3) 2,182 (4) 46 (4) 6,014 (5) 194 (5) 2,078 (6) 2,365 (9)	\$ 458,142
Dietary	142,109	-	1,265 (2) 301 (3) 339 (4) 815 (5)	139,389
Laundry	19,201	-	4,329 (2) 22 (3) 3 (4) 122 (5)	14,725
Housekeeping	65,265	-	194 (3) 185 (4) 638 (5)	64,248
Maintenance	32,293	-	62 (3) 52 (4) 185 (5) 785 (9)	31,209
Administration & Medical Records	136,368	24 (4) 2,078 (6)	2,985 (2) 155 (3) 245 (4) 672 (5) 31 (5) 11,815 (9)	122,567
Utilities	39,734	-	111 (9)	39,623
Special Services	-	-	-	-

LAKE CITY-SCRANTON HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended March 31, 1995
For the Contract Periods October 1, 1995 Through September 30, 1996
AC# 3-LCS-C5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Medical Supplies & Oxygen	62,710	-	30,563 (2) 28,061 (7) 3,980 (8)	106
Taxes & Insurance	17,416	-	1,121 (9)	16,295
Legal Fees	-	-	-	-
Cost of Capital	111,014	1,086 (11)	1,551 (1) 7,328 (9)	103,221
Subtotal	1,101,377	3,188	115,040	989,525
Ancillary	8,767	-	-	8,767
Non-Allowable	39,987	1,551 (1) 40,942 (2) 8,671 (5) 28,061 (7) 3,980 (8) 23,525 (9)	1,086 (11)	145,631
Total Operating Expenses	<u>\$1,150,131</u>	<u>\$109,918</u>	<u>\$116,126</u>	<u>\$1,143,923</u>
TOTAL PATIENT DAYS	<u>15,921</u>	<u>-</u>	<u>-</u>	<u>15,921</u>
TOTAL BEDS	<u>88</u>			

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 1995
AC# 3-LCS-C5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 1,824	
	Accumulated Depreciation	2,698	
	Nonallowable	1,551	
	Other Equity		\$ 4,522
	Cost of Capital		1,551
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	40,942	
	Restorative		1,800
	Dietary		1,265
	Laundry		4,329
	Medical Records		2,985
	Medical Supplies		30,563
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304		
3	Retained Earnings	3,180	
	Nursing		2,384
	Restorative		62
	Dietary		301
	Laundry		22
	Housekeeping		194
	Maintenance		62
	Administration		155
	To properly charge salaries and related benefits applicable to the prior period HIM-15-1, Section 2302.1		
4	Accrued PTO	3,028	
	Medical Records	24	
	Nursing		2,182
	Restorative		46
	Dietary		339
	Laundry		3
	Housekeeping		185
	Maintenance		52
	Administration		245
	To adjust PTO accrual to allowable HIM-15-1, Sections 2302.1 and 2304		

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 1995
AC# 3-LCS-C5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Nonallowable	8,671	
	Nursing		6,014
	Restorative		194
	Dietary		815
	Laundry		122
	Housekeeping		638
	Maintenance		185
	Administration		672
	Medical Records		31
	To adjust workers' compensation expense to allowable HIM-15-1, Section 2304		
6	Medical Records	2,078	
	Restorative		2,078
	To reclassify medical records salaries and related benefits to the proper cost center HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Nonallowable	28,061	
	Medical Supplies		28,061
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable	3,980	
	Medical Supplies		3,980
	To disallow expense due to lack of adequate documentation HIM-15-1, Section 2304 (This adjustment applies only to the contract periods 10/1/95-9/30/96)		
9	Nonallowable	23,525	
	Nursing		2,365
	Maintenance		785
	Administration		11,815
	Utilities		111
	Taxes and Insurance		1,121
	Cost of Capital		7,328
	To adjust home office cost allocation to allowable HIM-15-1, Sections 2304 and 2150		

LAKE CITY-SCRANTON HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended March 31, 1995
AC# 3-LCS-C5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Cost of Capital Nonallowable	1,132	1,132
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the contract period 4/1/95-9/30/95)		
11	Cost of Capital Nonallowable	1,086	1,086
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
	(This adjustment applies only to the contract periods 10/1/95-9/30/96)		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$121,780</u>	<u>\$121,780</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

LAKE CITY-SCRANTON HEALTHCARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended March 31, 1995
 For the Contract Period April 1, 1995 Through September 30, 1995
 AC# 3-LCS-C5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.8981</u>
Deemed Asset Value (Per Bed)	29,644
Number of Beds	<u>88</u>
Deemed Asset Value	2,608,672
Improvements Since 1981	124,525
Accumulated Depreciation at 3/31/95	<u>(639,456)</u>
Deemed Depreciated Value	2,093,741
Market Rate of Return	<u>0.075</u>
Total Annual Return	157,031
Number of Days in Period	<u>183/365</u>
Adjusted Annual Return	78,731
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	78,731
Depreciation Expense	23,685
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	102,416
Total Patient Days (Minimum 98% Occupancy)	<u>15,921</u>
Cost of Capital Per Diem	\$ <u><u>6.43</u></u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended March 31, 1995
For the Contract Period April 1, 1995 Through September 30, 1995
AC# 3-LCS-C5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 4.64
Adjustment for Maximum Increase	<u>3.83</u>
Maximum Cost of Capital Per Diem	\$ <u>8.47</u>
Reimbursable Cost of Capital Per Diem	\$ 6.43
Cost of Capital Per Diem	<u>6.43</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

LAKE CITY-SCRANTON HEALTHCARE CENTER
 Cost of Capital Reimbursement Analysis
 For the Cost Report Period Ended March 31, 1995
 For the Contract Periods October 1, 1995 Through September 30, 1996
 AC# 3-LCS-C5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>1.9778</u>
Deemed Asset Value (Per Bed)	30,889
Number of Beds	<u>88</u>
Deemed Asset Value	2,718,232
Improvements Since 1981	124,525
Accumulated Depreciation at 3/31/95	<u>(639,456)</u>
Deemed Depreciated Value	2,203,301
Market Rate of Return	<u>0.072</u>
Total Annual Return	158,638
Number of Days in Period	<u>183/365</u>
Adjusted Annual Return	79,536
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Rent and Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	79,536
Depreciation Expense	23,685
Amortization Expense	-
Capital Related Income Offsets	-
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	103,221
Total Patient Days (Minimum 97% Occupancy)	<u>15,921</u>
Cost of Capital Per Diem	\$ <u><u>6.48</u></u>

LAKE CITY-SCRANTON HEALTHCARE CENTER

Cost of Capital Reimbursement Analysis

For the Cost Report Period Ended March 31, 1995

For the Contract Periods October 1, 1995 Through September 30, 1996

AC# 3-LCS-C5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 4.64
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>8.63</u>
Reimbursable Cost of Capital Per Diem	\$ 6.48
Cost of Capital Per Diem	<u>6.48</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

